

Small Scale Industries: Agribusiness Challenges and Risk

Truptidevi Harikishan Nayak¹, Dr. V. G. Ukinkar²

ABSTRACT

Small Scale Industries in India has tremendous potential and has been contributing substantially to boost up GDP. Small Scale Industry has been contributing a lot in generating employment for many people, generating foreign exchange by contributing to the export of its products worldwide too. Small Scale Industry sector contributes 40% share of manufacturing sector and 1/3 value of national exports, which is very significant in terms of contribution to the national economy. (Tnau Agritech Portal 2015) The purpose of this paper is to explore the agribusiness in India. This includes identifying challenges of agribusiness facing in Bhandara district of Maharastra state of India, and unsystematic risk in the industry.

Keywords: Agribusiness, Systematic Risk, Unsystematic Risk, Challenges.

INTRODUCTION

Agribusiness is such business enterprises that sells to farmers, traders and that involved an input or a produce or services such as productive resources i.e. feed, seed, fertilizer, equipment, energy, pesticides, machine etc, agricultural commodities i.e. raw and processed commodities of food and fiber, facilitative services i.e. credit, insurance, marketing, storage, processing transportation, packing, distribution, consultancy, soil testing etc. It is agriculture and its allied industries that India is heavily depend upon. Whether it is raw material, industrial products like pesticides, fertilizers, and many consumer goods small scale industries are the main source of the same. Small scale industries contribute nearly 22% in the GDP. 65-70 per cent of the India's population is dependent on agriculture for their livelihood (Entrepreneurship in agriculture and allied sectors, 2011). As per the research conducted by NCAP 24.4% which is one fourth of the total household farm income is contributed by non-farm business. And thereafter marginal and sub marginal farmers, the same increases to 33.9 per cent and 27.4 per cent, respectively. (Birthal et al., 2007)

RESEARCH OBJECTIVES

To explore the challenges of agribusiness in India

To explore the unsystematic risk in agribusiness in India.

REVIEW OF THE LITERATURE

Definition of Investment:

Definition of Small Scale Industry is not same worldwide. It is the criteria of specific country that defines the small scale industry. Those criteria's are fund invested in the business or industry, employment generated by the organization concerned etc. In most of the countries it is size of employment that defines the small scale industry. In country like USA, small scale organizations are those organizations that employed less than 500 employees or manpower. The same is 20 in case of skilled workers in the U.K. In Italy it is 50 people and in Sweden it is similar to US i.e 500 people. Small Medium Enterprises in India has two types: One is manufacturing and other is service provider organizations. As per Ministry of Small Scale Industries Notification 2006 available in [http://www.dcmsme.gov.in/publications/circulars/Gaz Not /Recommendation_of_Advisory_Committee.pdf](http://www.dcmsme.gov.in/publications/circulars/Gaz%20Not%20Recommendation_of_Advisory_Committee.pdf), limit for investment in plant and machinery, equipment for manufacturing and service enterprises are given below:

| Manufacturing Sector | |
|-----------------------------|---|
| Enterprises | Investment in plant & machinery |
| Micro Enterprises | Does not exceed twenty five lakh rupees |
| Small Enterprises | More than twenty five lakh rupees but does not exceed five crore rupees |
| Medium Enterprises | More than five crore rupees but does not exceed ten crore rupees |
| Service Sector | |
| Enterprises | Investment in equipments |
| Micro Enterprises | Does not exceed ten lakh rupees: |
| Small Enterprises | More than ten lakh rupees but does not exceed two crore rupees |
| Medium Enterprises | More than two crore rupees but does not exceed five crore rupees |

Defining Agribusiness:

“Agribusiness includes all those business and management activities performed by firms that provide inputs to the farm sector, produce farm products, and/or process, transport, finance, handle or market farm products.” Downey and Erickson (1987) as per the above definition it is those organizations that provide inputs to the farm sector to produce farm products, transport, finance, market farm products etc.

“There are two broad categories of agribusiness companies, namely those that manage and own farms and those that provide essential goods and services to those farms. In general, “agribusiness” refers to corporations that center on food, be it meat or plant that is intended for human consumption. Among farms, the majority tends to be major operations that provide food growth and production on a large scale” (wise geek 2015) As per the above definition of agribusiness, agribusiness is even that organization that are engaged in agriculture at their own and even those organization that offer services to the farm based organization. So in this paper both the concepts have been considered.

Problems of Agribusiness:

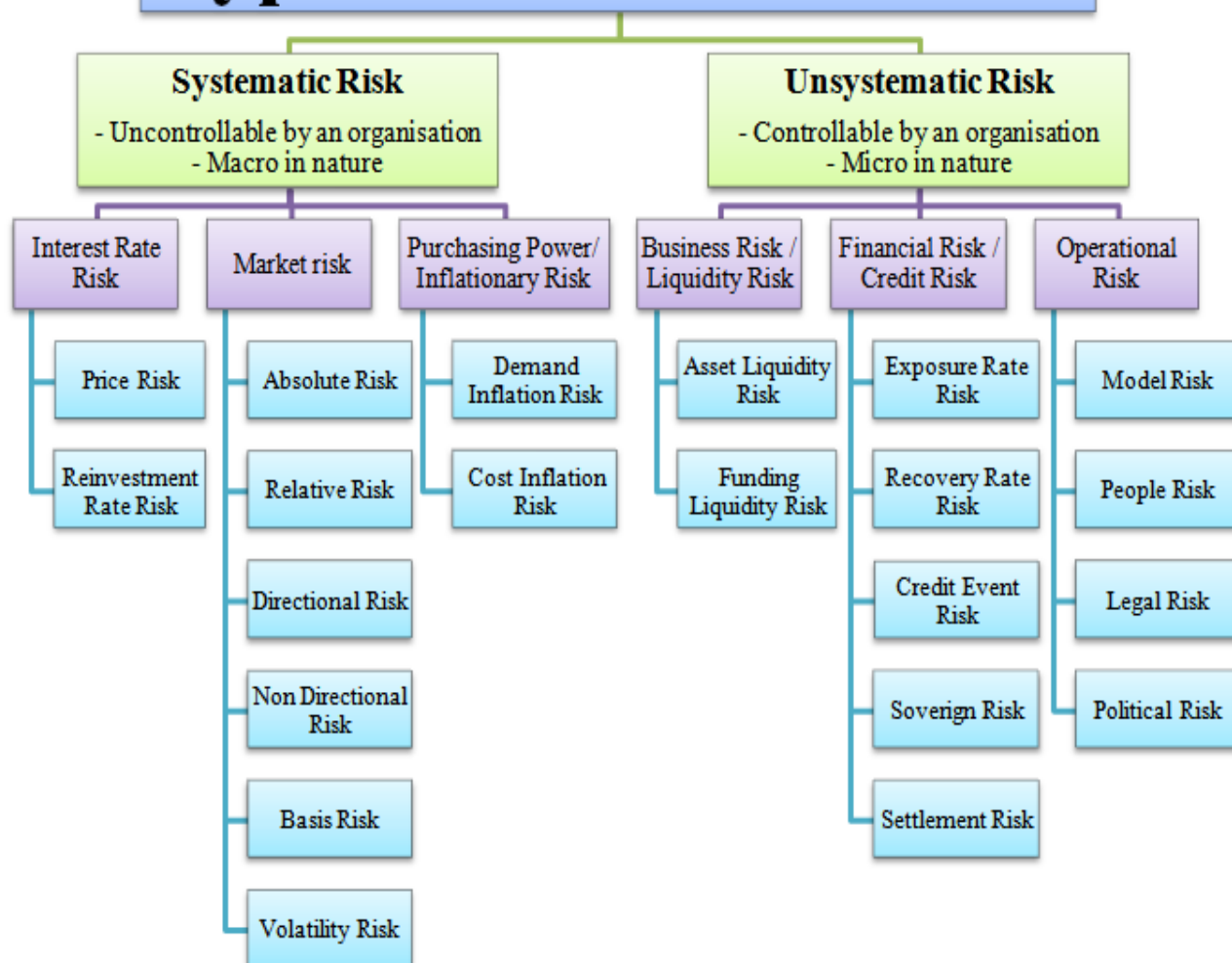
Apart from normal problem related to liquidity, operation management and credit facilities to SME business there are some specific emerging problems that need attention. Market structure problems, logistic, managerial etc are some of the basic problems of SME business. Additionally, there is need to improve the existing marketing system that directly linked with the cost reduction and preventing loss in the marketing chain, increasing competition is also a matter of concerned which reduces profits.

This way it will help even to consumers along with agribusiness organizations. Some issues are related to retail sectors. It is needless to mention that retail sector and agriculture are two basic and largest sectors where there is huge number of people are employed in India. It is the entry of organized sector in the retail business-agribusiness that creates trouble to the agribusiness which is being done by individuals or family member business under small scale organization.

Defining Risk:

Risk is the chance that an investment’s actual return will be different than expected. It includes the possibility of losing some or all of the original investment.

Types of Risk in Finance



As far as this paper is concerned it is the unsystematic risk i.e. Business Risk / Liquidity Risk, Financial Risk / Credit Risk, and Operational Risk are the main area of concerned. SME's need more healthy risk management approach as it is their size of business and related limitations that always bring challenges. Basically it is the difference of way of function of SME and Large Business houses that differentiate the type of risk. "In SME business, the „gut feeling, which is subjective, is more relied upon than the pure analysis that are more objective oriented. Hence, both the business and professional relationships are rolled into one. Therefore credit rating or for that matter risk rating may not make a material difference to SME sectors. Certain misconceptions such as SMEs may get low rating, provide unreliable information, may not afford the fees for getting them rated, etc. will have to be dispelled first. However, rating agencies with specialized teams with analytical tools customized to SME sector will go a long way in putting in place proper mechanism in this regard". (Ashok Panigrahi 2012)

In case of SME business risk are directly affect their day to day operations which further leads to impact on revenue and boost expenditures. Even this level of risk becomes very serious for this kind of organizations to fail the business.

"Agribusiness includes all those business and management activities performed by firms that provide inputs to the farm sector, produce farm products, and/or process, transport, finance, handle or market farm products." Downey and Erickson (1987)

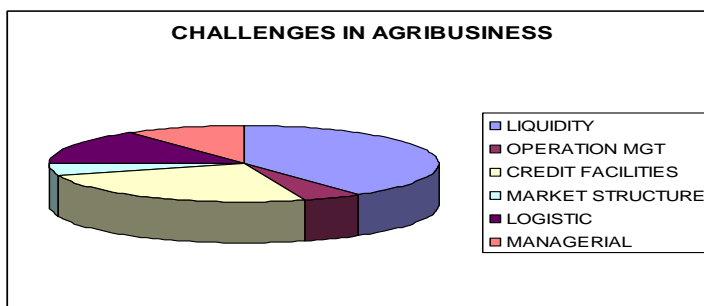
METHODOLOGY

Study has been conducted on agribusiness organization under small scale industries categories. 100 people had been approached and got the response as sample for this study that are belongs to farm sector-produce farm products, processing of the food products, based in Bhandara district of Maharashtra state. Sampling technique used in this systematic study for the paper was non probability based technique i.e. convenience sampling technique. Data had been collected through questionnaire with schedule technique. This instrument of data collection has been preferred as pure questionnaire technique would have difficulty in understanding technical words related to the risk, like systematic risk, unsystematic risk etc.

Data Analysis:

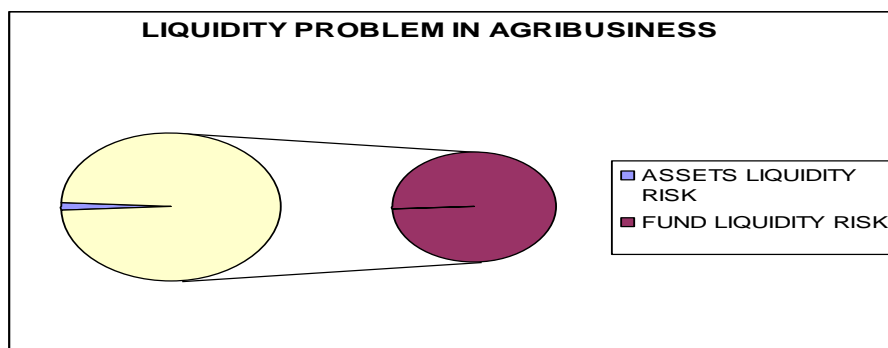
Q.1. What is the main challenges you face? Kindly tick the option/ options given below.

| | |
|----------------------|----|
| Liquidity Management | 40 |
| Operation Management | 5 |
| Credit Facilities | 25 |
| Market Structure | 5 |
| Logistic | 15 |
| Managerial | 10 |



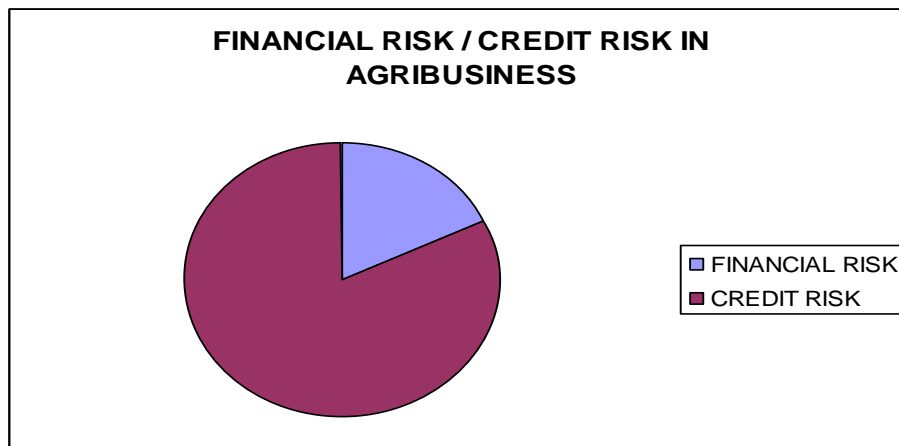
Q.2. Do you face problem related to ASSETS LIQUIDITY / FUND LIQUIDITY ?

| | |
|-----------------------|----|
| Assets Liquidity Risk | 2 |
| Fund Liquidity Risk | 98 |



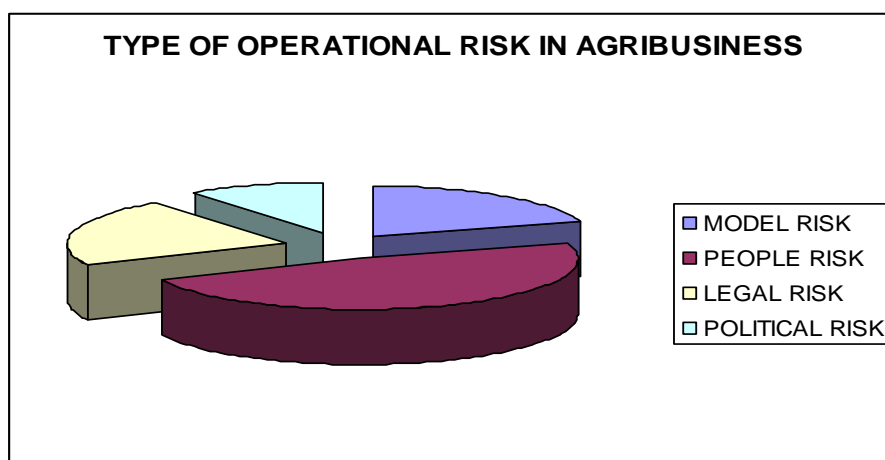
Q.3. Do you face problem related to FINANCIAL RISK / CREDIT RISK ?

| | |
|----------------|----|
| Financial Risk | 18 |
| Credit Risk | 82 |



Q.4. Do you face problem related to OPERATIONAL RISK ?

| | |
|----------------|----|
| Model Risk | 20 |
| People Risk | 48 |
| Legal Risk | 22 |
| Political Risk | 10 |



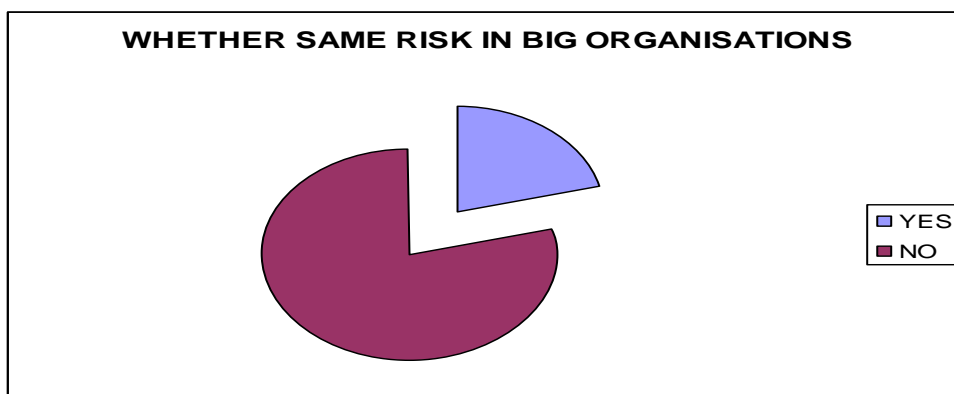
Q.5. Do you feel that above mentioned Risks can be avoided by managing the same effectively?

| | |
|-----|-----|
| YES | 100 |
| NO | 00 |



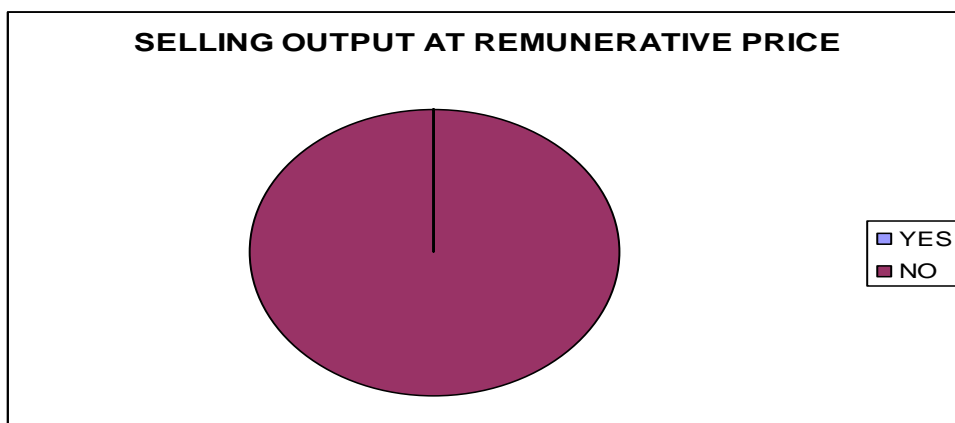
Q.6. Do you feel that above mentioned Risks are same in the big organizations, other than small scale?

| | |
|-----|----|
| YES | 21 |
| NO | 79 |



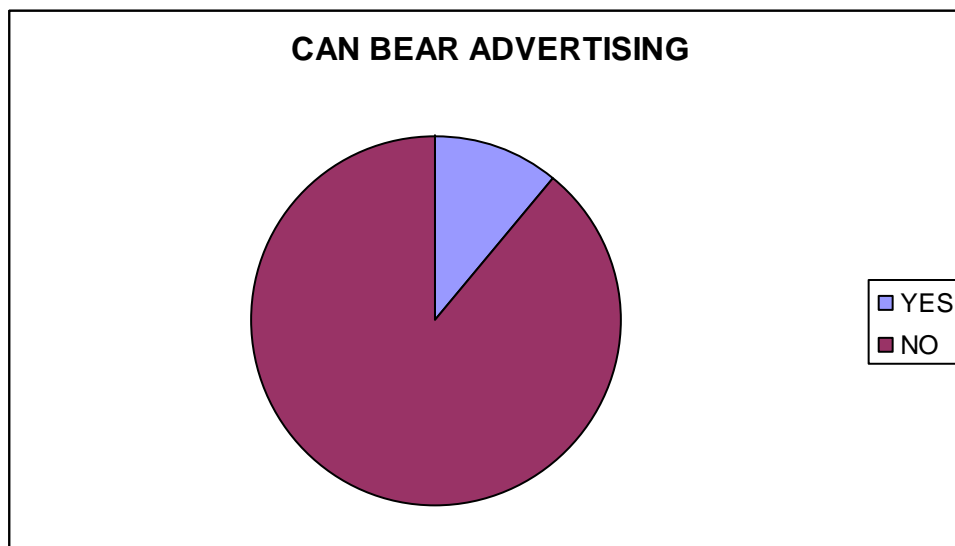
Q.7. Do you able to sell your output at remunerative prices?

| | |
|-----|-----|
| YES | |
| NO | 100 |



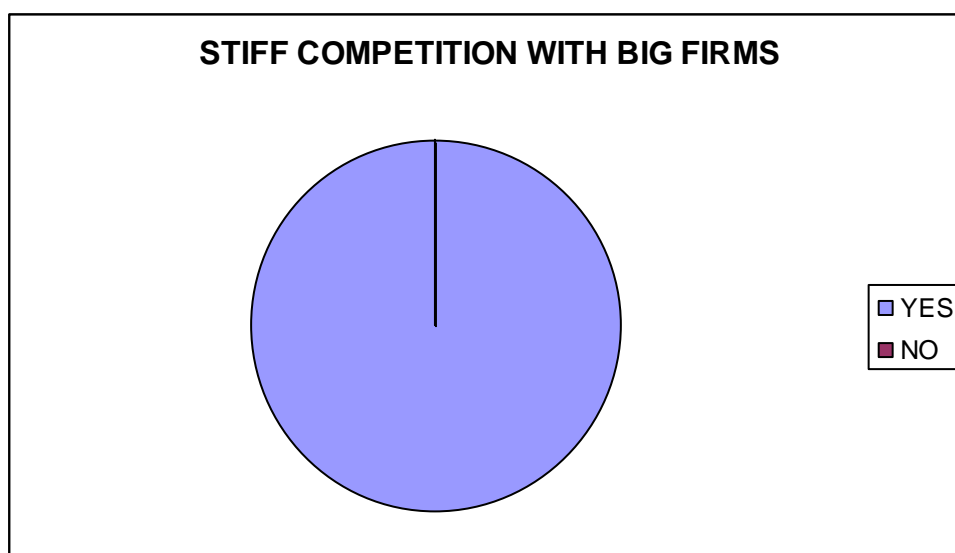
Q.8. Do you feel that you could bear advertising of your product or organization ?

| | |
|-----|----|
| YES | 11 |
| NO | 89 |



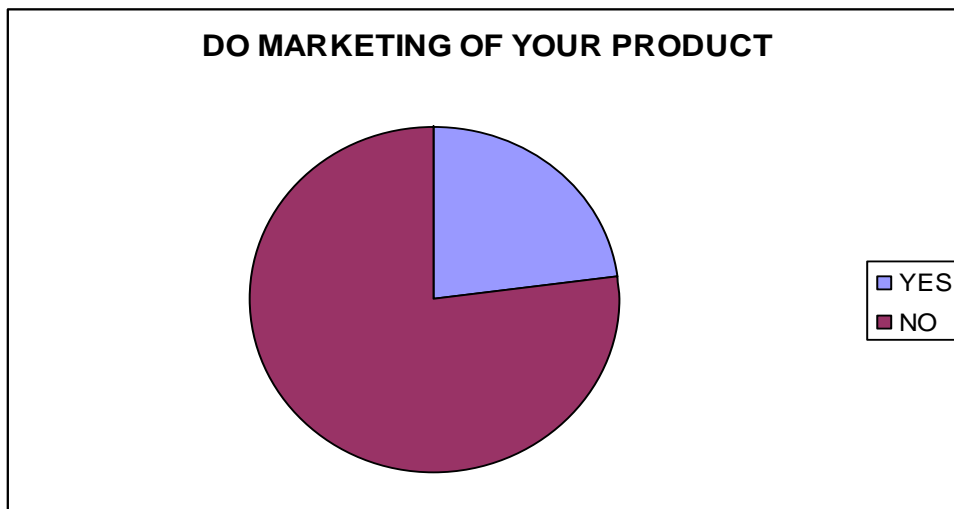
Q.9. Do you think there is stiff competition with large firms?

| | |
|-----|-----|
| YES | 100 |
| NO | 0 |



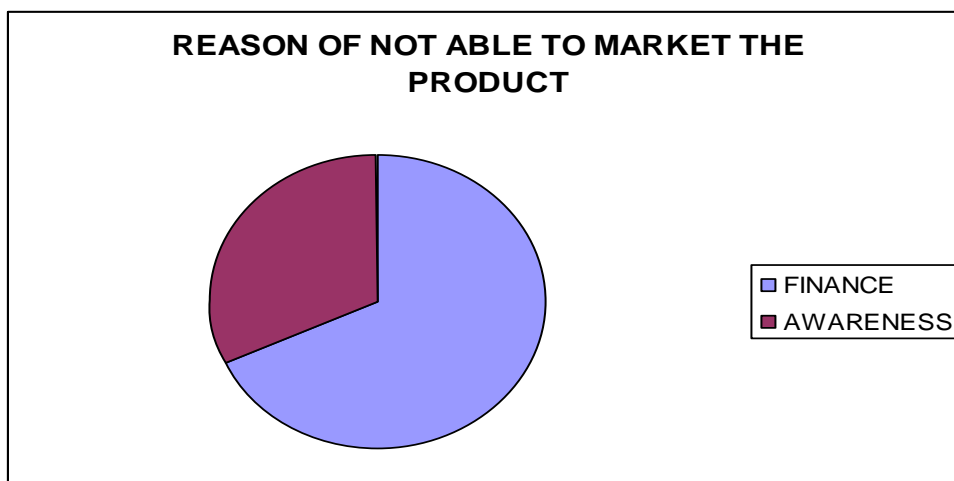
Q.10. Do you pay attention to the marketing of your product?

| | |
|-----|----|
| YES | 23 |
| NO | 77 |



Q. 10 a. If Not what is the reason for the same?

| | |
|-----------|----|
| FINANCE | 68 |
| AWARENESS | 32 |



1 Correlation between FINANCIAL RISK & CHALLENGES as liquidity management

| Correlations | | | |
|----------------------|---------------------|----------------|----------------------|
| | | financial risk | liquidity management |
| financial risk | Pearson Correlation | 1 | 0.82681218 |
| | Sig. (2-tailed) | | 8.50914E-36 |
| | N | 100 | 100 |
| liquidity management | Pearson Correlation | 0.82681218 | 1 |
| | Sig. (2-tailed) | 8.50914E-36 | |
| | N | 100 | 100 |

**

Correlation is significant at the 0.01 level (2-tailed).

2 Correlation between CREDIT RISK & CHALLENGES as liquidity management

| Correlations | | | |
|----------------------|--|-------------|----------------------|
| | | credit risk | liquidity management |
| credit risk | Pearson Correlation | 1 | 0.76152523 |
| | Sig. (2-tailed) | | 4.57818E-18 |
| | N | 100 | 100 |
| liquidity management | Pearson Correlation | 0.76152523 | 1 |
| | Sig. (2-tailed) | 4.57818E-18 | |
| | N | 100 | 100 |
| ** | Correlation is significant at the 0.01 level (2-tailed). | | |

3 Correlation between PEOPLE RELATED RISK & CHALLENGES as liquidity management

| Correlations | | | |
|----------------------|--|---------------------|----------------------|
| | | people related risk | liquidity management |
| people related risk | Pearson Correlation | 1 | 0.494804418 |
| | Sig. (2-tailed) | | 9.33953E-08 |
| | N | 100 | 104 |
| liquidity management | Pearson Correlation | 0.494804418 | 1 |
| | Sig. (2-tailed) | 9.33953E-08 | |
| | N | 100 | 100 |
| ** | Correlation is significant at the 0.01 level (2-tailed). | | |

4 Correlation between Effective Management & Challenges as liquidity management

| Correlations | | | |
|----------------------|--|----------------------|----------------------|
| | | effective management | liquidity management |
| effective management | Pearson Correlation | 1 | 0.346290494 |
| | Sig. (2-tailed) | | 1.98501E-05 |
| | N | 100 | 100 |
| liquidity management | Pearson Correlation | 0.346290494 | 1 |
| | Sig. (2-tailed) | 1.98501E-05 | |
| | N | 100 | 100 |
| ** | Correlation is significant at the 0.01 level (2-tailed). | | |

Correlation has been calculated using dependent variable as liquidity problem or liquidity management with independent variables like financial risk, credit risk, people or manpower related risk, and effective way of management business. It has been found that independent variables such as financial risk and credit risk are having strong and positive correlation with dependent variable of liquidity management and independent variables like manpower risk and effective management has little less correlation but its too positive correlation. This analysis shows that whether its low or high correlation but there is positive correlation with above mentioned independent variable and dependent variables. So there is impact of financial risk, credit risk and manpower related risk and way organizations have been managed, on the liquidity problem of the organization.

INTERPRETATION AND CONCLUSION

In order to achieve objectives of this paper, data were collected from 100 samples of agribusiness of Bhandara district. Regarding challenges they facing, most of the respondents 40%, responded to liquidity management as major challenges, then it was credit facilities that limits their growth as 25% responded opted credit facilities as challenges. Further within the liquidity most of them 98% responded to fund liquidity risk that they face as major risk which comes under unsystematic risk. But out of given two options i.e. financial risk and credit risk, it is credit risk opted by most 82% of the respondents. Credit risk shows that getting credit becomes difficult for these organizations because of not able to match the infrastructural requirements and other related requirements of these small organizations. As far as operational risk is concerned it is people or manpower related risk is there in the agribusiness organizations of Bhandara district. As 48% choice of the respondent was people related risk.

On the other hand they believe that this kind of risk can be avoided by managing their organization effectively. It is true as well, because these are the unsystematic risk which can be managed. This is because this kind of risks is micro in nature; means related to one individual organizations so can be controlled or avoided. Respondents believe that this kind of problem is not same in the big organization as these are related with micro level organizations. These organizations are not able to advertise their product mainly due to fund problem, but their advertisement is necessary to avoid stiff competition by big firms.

Findings of Correlation:

| | |
|---|------|
| Correlation between FINANCIAL RISK & CHALLENGES as liquidity management | 0.82 |
| Correlation between CREDIT RISK & CHALLENGES as liquidity management | 0.76 |
| Correlation between PEOPLE RELATED RISK & CHALLENGES as liquidity management | 0.49 |
| Correlation between EFFECTIVE MANAGEMENT & CHALLENGES as liquidity management | 0.34 |

This shows that financial risk has very strong and positive impact on liquidity management of small scale organization along with credit risk which has also strong and positive relation that make these two variable as very much crucial in terms of liquidity management. Other variables like manpower management and management of organization as a whole has also have positive relation that shows influence of these two factors over liquidity management as major challenge.

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APPENDIX- A. QUESTIONNAIRE

This questionnaire is related to academic research. Need to rate your answers in the scale of 1-10.

Q.1. What are the challenges you face? Kindly rate the given options in the scale of 1-5 where one is having highest rating.

- | | |
|-------------------------|--|
| A. Liquidity Management | <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> |
| B. Operation Management | <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> |
| C. Credit Facilities | <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> |
| D. Market Structure | <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> |
| E. Logistic | <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> |
| F. Managerial | <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> |

Q.2. Do you face problem related to ASSETS LIQUIDITY / FUND LIQUIDITY ?

- | | |
|--------------------------|--|
| A. Assets Liquidity Risk | <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> |
| B. Fund Liquidity Risk | <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> |

Q.3. Do you face problem related to FINANCIAL RISK / CREDIT RISK ?

- | | |
|-------------------|--|
| A. Financial Risk | <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> |
| B. Credit Risk | <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> |

Q.4. Do you face problem related to OPERATIONAL RISK ?

- | | |
|-------------------|--|
| A. Model Risk | <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> |
| B. People Risk | <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> |
| C. Legal Risk | <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> |
| D. Political Risk | <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> |

Q.5. Do you feel that above mentioned Risks can be avoided by managing the same effectively ?

YES ☐ NO ☐

Q.6. Do you feel that above mentioned Risks are same in the big organizations, other than small scale ?

YES ☐ NO ☐

Q.7. Do you able to sell your output at remunerative prices ?

YES ☐ NO ☐

Q.8. Do you feel that you could bear advertising of your product or organization ?

YES ☐ NO ☐

Q.9. Do you think there is stiff competition with large firms ?

YES ☐ NO ☐

Q.10. Do you pay attention to the marketing of your product ?

YES ☐ NO ☐

Q.10 a. If Not what is the reason for the same?

Finance ☐ Awareness ☐

Appendix B: The Product Group Matrix

There are about twenty-one major industry groups in the small scale sector. These are listed below:

Food Products- Chemical & Chemical Products - Basic Metal Industries - Metal Products - Electrical Machinery & Parts - Rubber & Plastic Products - Machinery & Parts Except Electrical goods - Hosiery & Garments - Wood Products - Non-metallic Mineral Products - Paper Products & Printing - Transport Equipments & Parts - Leather & Leather Products - Miscellaneous Manufacturing Industries - Other Services & Products - Beverages, Tobacco & Tobacco Products - Repair Services - Cotton Textiles - Wool, Silk, Synthetic Fibre Textiles - Jute, Hemp and Mesta Textiles - Other Services

Over 7500 products are known to be manufactured in this sector. Small Scale sector has emerged as a major supplier of mass consumption items like - leather and leather goods - plastic and rubber goods - ready-made garments - hosiery goods, sheet metal goods - stationery items - soap and detergents - domestic utensils - toothpaste and toothpowder - safety matches - preserved foods and vegetables - wooden and steel furniture - paints and varnishes etc., Among the sophisticated items mention may also be made of - Television sets - calculators - microwave components - plastic film capacitors - carbon film registers - electro medical equipments - electronic teaching aids - digital measuring equipments - air-conditioning equipments - optical lenses - drugs and pharmaceuticals - electric motors - pesticide formulators - photographic sensitized paper - razor blades - collapsible tubes, etc. available in <http://www.dcmsme.gov.in/ssiindia/spgxx01x.htm>

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